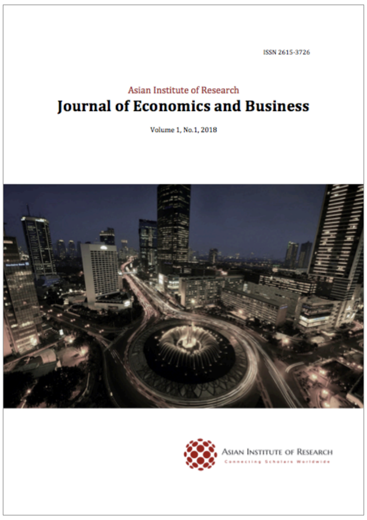

Journal of Economics and Business

Ogudo, Valentine, and Afolabi, Babatunde (2018), Non-Performing Loans and Banks' Performance in Nigeria: Evidence From First Bank Nigeria Plc. In: *Journal of Economics and Business*, Vol.1, No.1, 107-119.

ISSN 2615-3726

DOI: 10.31014/aior.1992.01.01.10

The online version of this article can be found at:
https://www.asianinstituteofresearch.org/

Published by:
The Asian Institute of Research

The Asian Institute of Research *Journal of Economics and Business* is a peer-reviewed International Journal. The journal covers scholarly articles in the fields of Economics and Business, which includes, but not limited to, Business Economics (Micro and Macro), Finance, Management, Marketing, Business Law, Entrepreneurship, Behavioral and Health Economics, Government Taxation and Regulations, Financial Markets, International Economics, Investment, and Economic Development. As the journal is Open Access, it ensures high visibility and the increase of citations for all research articles published. The *Journal of Economics and Business* aims to facilitate scholarly work on recent theoretical and practical aspects of Economics and Business.

Asian Institute of Research
Connecting Scholars Worldwide

ASIAN INSTITUTE OF RESEARCH
Connecting Scholars Worldwide

The Asian Institute of Research
Journal of Economics and Business
Vol.1, No.1, 2018: 107-119
ISSN 2615-3726

DOI: 10.31014/aior.1992.01.01.10

Non-Performing Loans and Banks' Performance in Nigeria: Evidence From First Bank Nigeria Plc

Valentine Ogudo[1], Babatunde Afolabi, Ph.D.[2]

[1] Department of Banking and Finance, Afe Babalola University, Ado Ekiti, Nigeria, valentine.ogudo@gmail.com
[2] Department of Banking and Finance, Afe Babalola University, Ado Ekiti, Nigeria, atunne@gmail.com

Abstract

In recent past, many Nigerian banks became weak and highly unprofitable due to high non-performing loans portfolio accumulated by the banks. It is widely believed that the major reason for the huge non-performing loan portfolio can be attributed to insider dealing due to excessive and collaterised loans to bank directors that eventually became bad and irrecoverable. The study seeks to examine the effects of Non-performing loans on the performance of the banking sector in Nigeria. The exploratory research design was adopted in the study. The result of the analysis showed that high level of non-performing loans reduces the performance of banks in the long run in Nigeria. The study, therefore, recommends amongst other things that credit reporting and supervising authorities should be enhanced to stem the ugly tide of the high level of non-performing loans in the Nigerian banking sector.

Keywords: Non-Performing Loan, Banks, Bad Debts.
JEL Classification: G21, H81, N27

1.1 Background of the Study

As bad debts triggered a global financial and banking crisis, Nigerian banks also endured her own home-grown troubles. Bad debts and overdependence on stock market returns had pushed almost half of Nigerian banking sector's outstanding loans into default. Poor oversight resulting from weak institutional capacity on the part of regulators resulted in the banking crisis of 2004. Hence the then CBN Governor Professor Charles Soludo mandated an increase in bank's minimum capital base from N2bn to N25bn, triggering a wave of foreign investments in Nigerian banks, bank mergers and provided share offerings on the Nigerian capital market. This reduced the number of banks from 89 in 2004 to 25 well-capitalized banks in 2005; including potential 'regional' or 'continental powers.'

At the end of the CBN induced consolidation in 2005, Nigerian banks further voluntarily increase their capital bases beyond the stipulated N25 Billion to attract more foreign investments and properly handle major transactions within and outside the country. Hence, between 2006 and 2007 not less than $12Bn (N1.9Trillion) had been raised in equity through the Nigerian Stock Exchange (NSE), raised **not** solely by investor demand but due to some financial interests from security underwriters and brokers skilled at share price manipulation. Banks typically lent to securities firms which use the money to buy equities at the Exchange. A JP Morgan Chase report alleging that Nigerian bank stocks were overpriced coupled with the global meltdown which was already sending ripples to Nigeria from other parts of the globe created panic and accelerated foreign investors exit from the market. Consequently, and with so many shares available and so many people selling, the long grind into a deep bear market began affecting most bank loans which had been raised to finance share purchase.

Series of reforms introduced by Sanusi further restored confidence in the banking sector. Following the audit exercise conducted by CBN's examiners, it was discovered that five of the banks had accumulated margin loans of N500 billion, among other loans, which had gone bad and eroded their shareholders' funds. Hence, it was imperative to move in to send a strong signal to avert future recklessness on the part of bank executives. Due to the need to sanitize the banking sector, an Asset Management Company was created to absorb the bad loans and allow for buyers of the banks to recapitalize them. To ensure efficiency of every part of the economy functions, economic reforms were undertaken, hence achieving price stability, full employment, high economic growth and internal and external balances. Thus banking reforms in Nigeria were undertaken to sanitize the sector, restore confidence and reposition the Nigerian economy to achieve her macroeconomic goals.

1.2 Statement of Problem and Research Objective

The CBN's recapitalization decree was expected to bring about financial stability and engender economic development. Instead, signs of looming distress were already hitting the Banks barely three years after consolidation. A holistic investigation into what went wrong in Nigeria leading up to the banking crisis in 2008 found eight interrelated factors responsible, they are: Macroeconomic Instability caused by large and sudden cash inflows, Non-performing loans and major failures in corporate governance at banks, Lack of investor and consumer sophistication, Inadequate disclosure and transparency about financial position of banks, Critical gaps in the regulatory framework and regulations, Uneven supervision and enforcement, Unstructured governance and management processes at CBN and Weaknesses in the business environment.

The crucial question then is that if banks have procedures for managing loans and measuring lending risks, why do bank loans become non-performing and bad ultimately? What is the quality of lending decisions in Nigerian banks? Do Nigerian banks Executives possess adequate knowledge and skills to manage depositors' funds? How can the incidents of non-performing loans and bad debts be minimized or eliminated in Nigeria? Do banks actually adopt standard credit analysis techniques that focus on certain variables related to the borrower, its industry (in the case of corporate customers), and the prevailing general economic conditions? Under the assumption that risks correlates positively with bad debts, it appears that the real problem of Non-performing loans lies in the approach to risk identification, poor analysis, unforeseen risk elements, environmental vicissitudes, economic factors as well as the unpredicted nature of the borrowers and the extent to which they contribute to the problem of bad bank debts.

The objectives of this study are to assess the implication of Non-performing loans on the performance of the banking sector and the entire financial sector at large. And to assess the state of lending by Nigeria banks after the first banking consolidation and the impact of CBN reforms post-consolidation. Looking at the main purpose of this research, we hereby pose the following Hypothesis:

H_0: Non-performing loans in banks have no effect on bank's profitability.

2.0 LITERATURE REVIEW

2.1 Concept of Bank Loan

In its general term, a loan is a written or oral agreement for a temporary transfer of a property (usually cash) from its owner (the lender) to a borrower who promises to return it according to the terms of the agreement, usually with interest for its use. However, in the ambiance of banking, a loan is regarded as money which is borrowed from a lending institution or a government agency and repaid at a future date. According to Onyiriuba (2015), a loan is m*oney that a bank lets a borrower to have the use of as a credit facility on condition that they pay it back with interest to the bank at an agreed future date*. Effective risk management is critical to the success of any bank. Credit risks must be anticipated, measured and planned for at any point in the lending

cycle. The main methods for solving the risk problem are the prevention of the loss, assumption of the risk and insurance.
Insurance is generally considered as anti-dote for business-related risks but according to Nwankwo (2011), not all risks are transferable by means of insurance as most credit risks would not satisfy the characteristics of insurable risks.

Commercial banks are the most relevant financial institution which encourages and mobilize savings and also channel such savings into productive investment due to their high network of offices, strength and deposit base. Commercial banks accept deposits from customers and lend to borrowers for various purposes; this role is paramount and outweighs every other one. They serve as intermediaries between borrower and savers. In the process of lending, new money is created by banks through the deposit lending multiplier effect, allowing commercial banks influence the level of the money stock, the allocation of fund, the direction and use of resources in the economy.

2.1 The Cannons of Lending

Factors considered by banks in assessing a loan request are the ingredients that determine the lending officers' faith in the debtor's ability and willingness to pay the obligations in accordance with the terms of loan agreement.
They are classified as the four Cs; **Character, Capacity to borrow, Capital, Collateral**

- **a) Character:** The borrower character is the most important of all factors since the willingness and determination to redeem the credit obligation are innately induced by the character.
- **b) Capacity:** This refers to the legal capacity to borrow.
- **c) Capital:** Credit is not usually granted to a business unless capital, which is one of the measures of financial strength, management prudence, and resourcefulness, has been supplied to support the facility.

2.1.3 Negative Effects of Non-Performing Loans on Banks

Before proffering solutions to some of the highlighted problems, it would be apt to mention some of the negative effects of non-performing loans on banks namely:

1) Loss of public confidence in the Banks
2) Loss of profit – Adequate provisioning must be made on non-performing loans. This results in a reduction in profit which would otherwise have been earned by the shareholders of the Banks;
    - a) Substandard where the principal and interest remain unpaid for more than 90 days but less than 180 days: 10% of the outstanding balance
    - b) Doubtful where the principal and interest remain unpaid for at least 180 days but less than 360 days: 50% of the outstanding balance
    - c) Lost where facilities on which unpaid principal and interest remain outstanding for 360 days or more and are not secured by legal title: 100% of the outstanding balance
    - d) In addition to the above, every licensed bank is required to make a general provision of at least 1% of risk assets not specifically provided for.
3) Inability to meet withdrawal demand obligations
4) Loss of banking license

2.1.4 Learning Points for Banks in Nigeria

The success or failure lessons bordered on the efficacy of credit management in the respective banks. To further buttress the effect of non-performing loans we highlight recent banks in Nigeria which failed primarily due to non-performing loans, poor corporate governance and outright abuse of the credit process. These banks have been bought over, absorbed or nationalized by the Federal Government of Nigeria.

Table 1: Table of Acquired/Absorbed/Nationalized Banks due to Non-Performing Loans

S/N	Old Bank Name	Total NPL (N'Bn)	Acquiring Entity	Status	Current Bank Entity
1	Intercontinental Bank	210.9	Access Bank Plc	Absorption	Access Bank
2	Oceanic Bank Plc	278.2	Ecobank PLC	Absorption	Ecobank
3	Equatorial Trust Bank	46.15	Sterling Bank Plc	Merger	Sterling Bank Plc
4	FINBANK	42.45	FCMB	Absorption	FCMB
5	MainStreet Bank	141.86	Skye Bank	Absorption	Skye Bank
6	Bank PHB	170.07	FGN	Nationalized	Keystone Bank
7	Enterprise Bank	95.59	FGN	Nationalized	Heritage Bank

Source: CBN NPL Circular (October 2009)

2.2 Empirical Review

2.2.1 Causes of Non-Performing Loans in Nigeria

According to CBN (2009), the factors that led to the crisis (beside the ripple effects of the global financial meltdown) include: Macroeconomic instability due to sudden high capital losses; Major failures in corporate governance at banks; Lack of investor and consumer sophistication; Inadequate disclosure and transparency about financial position of banks; Critical gaps in Prudential Guidelines and Uneven supervision and enforcement in addressing the above listed challenges.

The hidden or sometimes overlooked factors that create risk management difficulties for lending officers include, but not limited to: Inability to monitor loan utilization and the performance achieved by the borrower, Lack of credit analysis capabilities in several lending areas into which the bank ventures, Use of distorted financial statements and business information as a credit analysis base, Relying on uncertain operational cash flows, projected on some assumptions or from historical data, for loan repayment, Failure to observe significant credit approval and disbursement rules by loan officers, including top management staff with credit approval authority and board members (especially those with majority equity investment in the bank).

1) Unanticipated adverse changes in the original terms and conditions of a credit facility.
2) Insider abuse and dealings perpetrated by bank officials through fraudulent loans and transactions.

In managing the lending portfolio to attain the desired results, the bank should give adequate attention to the above factors. These considerations might not be applicable in all lending situations, or they could be of less consequence in some loan proposals. But it is important that whenever risk is indicated on account of the poor analysis of any or all of these factors, the lending decision should be suspended, declined, or made with satisfactory mitigating conditions. In the following discussions, we have tried to analyze the incidences and possible effects of these contributory to the crises of bad debts in banks. Other Causes of Non-Performing Loans in Nigeria are essential: Poor Loan Monitoring, Lack of credit analysis capability, Distorted Financial Statements and Unanticipated Adverse Conditions.

3.0 RESEARCH METHODOLOGY

3.1 Research Design and Instrument.

The research design employed was the exploratory variant of descriptive design, which is a one – time only observation method involving a survey of the research population. A well-structured questionnaire was prepared to serve both as research schedule and research instrument. This was administered to respondents within the identified working population.

3.2 Validity and Reliability of Test Instruments

A pre-test validity of the instrument used here was taken by administering it on 20 sample elements of the population. The result showed that the instrument had the ability to measure the intended variables for content, criterion and concept validity requirements of a good measuring instrument. The pre-test administration of the instrument was repeated four times, and the result proved its consistency between independent measurements of the same phenomenon.

3.3 Population and Sampling Techniques

Samples are drawn from target population which according to Lucey (2011) is the aggregate of all units in a target universe. In this research the population was drawn from the Nigerian banking community namely, the Management, the staff of First Bank Nigeria Plc and their customers, as well as other Banks in Nigeria and their staff and customers. The population was divided first based on 'Name of Bank' then by 'Location.' Samples were drawn at random from these populations. These parameters were believed to be able to sufficiently capture the entire essence of the exercise as they relate to individual Banks, their respective employees, and customers.

The strategic sampling Technique was used in the survey. Strategic random sampling was preferred since according to Osuagwu (2014) this technique estimates a population parameter with better precision. As stated above, the population was divided into 'Name of Bank' and five 'socio-economic' branches namely Marina, Ladipo, Alaba -suru, Burma-road, and Ikeja all in the city of Lagos. The personnel for the test included Directors and other top Management personnel First Bank, the Head, Credit Risk Management, shareholders, Relationship Managers, Loan beneficiaries and a cross-section of high volume customers within the years under review.

The primary data were collected from a well-structured questionnaire designed by the researcher to capture in detail the relevant data for analysis. Details of the questionnaire in question are shown in the appendix section of this research work. The questionnaire was administered through mail to the various locations. The return rate was quite encouraging as 200 out of the total 220 questionnaires were completed and returned.

3.4 Methods of Data Analysis

The regression method was used to test the correlation between NPL and bank's profitability for the years under review. The responses received were presented as a percentage (%) of the total number of respondents to each of the research questions.

In analyzing the data collected using the questionnaire; the researcher used the simple percentage method of data analysis. Chi-square was used as the statistical tool for testing more than two populations using the data base of two independent random samples.

The test statistic thus becomes;

$$X^2 = \frac{\sum(O_i - e_i)^2}{e_i}$$

where O_i=*observed frequency,* e_i=*expected frequency*

Decision rule:

Reject Null Hypothesis if the calculated value of (X^2) is greater than the critical value and accept Null Hypothesis if the calculated value of (X^2) is less than the critical value.

The Df = (r - 1) (c - 1)

Where Df =Degree of freedom, r = Number of rows, c = Number of columns

Hypothesis 1

H_0: That Non-performing loans in banks have no effect on bank's profitability.

4.0 PRESENTATION AND ANALYSIS OF DATA

In order to adequately capture the effect of non-performing loans on the growth of banks, we shall use two statistical techniques to capture the essence of the subject matter holistically. The following methods shall be employed namely:

1) Correlation Analysis Method
2) Chi Square Statistical Technique

While the correlation analysis technique was used to test the existence or otherwise of the relationship between non-performing loans and bank's profitability, the chi square technique was utilized in the test of hypothesis as to whether non-performing loans affected bank's growth. Analytical data for the test of correlation was obtained from past financial records of First Bank while the chi square was utilized on the data collected from a well-structured questionnaire which was designed by the author for this paper. 220 questionnaires were given out, but 200 (91%) were received and deemed for the analysis.

4.1 Distribution of Questionnaire

A total of 220 questionnaires were distributed to bank workers and customers in five branches where the commercial hub is very high out of which 200 were returned representing 91% return rate.

Table 2: Distribution of Questionnaires

Area/ Branches	Distributed	Returned	% Returned	% Return to Total Questionnaires
MARINA	122	117	95.9	53.18
LADIPO	58	51	87.93	23.18
ALABA-SURU	18	13	72.22	5.91
BURMA-ROAD	12	10	83.33	4.55
IKEJA	10	9	90	4.09
TOTAL	**220**	**200**		**90.91**

4.2 Analysis of Responses from Questionnaire

From the above, it can be inferred that high non-performing loans in banks which reflect poor risk management in the banks could lead to a reduction in profits in such banks, loss of jobs and collapse of the banking system in Nigeria as it threatens the Banks' corporate existence. It is also safe to infer that CBN's reforms saved the Nigerian banking sector from collapse, reduced incidents of non-performing loans in Banks and assisted in restoring public confidence in Nigerian Banks as strong banking systems are prerequisite for a strong financial industry. Furthermore, incidents of non-performing loans in Banks could increase where loan monitoring activities are weak, hence the need for adequate and sufficient collateral against loans advanced in case of default.

4.3 Questionnaire Analysis

Section A: This section covered the personal data of the respondents

Table 3: By Sex

Gender	Responses	%
Male	122	61
Female	78	39
Total	**200**	**100**

Table 4: By Age

Age Range	Responses	(%)
Below 30 years	70	35
31-40 years	100	50
41-50 years	30	15
Total	**200**	**100**

Table 5: By Marital Status

Status	Responses	%
Single	128	64
Married	72	36
Total	**200**	**100**

Table 6: By Qualification

Qualification	Responses	%
OND	30	15
B.SC/HND	110	55
M.SC/MBA	34	17
OTHERS	26	13
Total	**200**	**100**

Table 7: By Length of Service

Tenure Range	Responses	%
Below 5 Years	30	15
5-10 years	130	65
10 years and above	40	20
Total	**200**	**100**

Section B: In this section, the responses gotten from the questionnaires returned were tabulated and analyzed. It should be noted that the responses were fair enough, thanks to the Management, the staff of First Bank Plc. and the sample public. In this section, the responses gotten from the questionnaires returned were tabulated and analyzed.

4.4 Test of Hypotheses

According to Ojikutu (2012), a test of Hypothesis is a statistical tool that is used to test and determine whether there is any significant difference between the observed and expected theoretical frequency obtained from a

distribution. In this study, the test of the hypothesis was carried out using the chi square (x^2) statistical technique and the Correlation analysis method;
For Correlation analysis method:

$$\frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

Where:
∑= Summation
For Chi square(x^2) statistical technique:

$$X^2 = \frac{\sum(o - e)^2}{e}$$

Where:
X^2=chi Square; O=Observed Frequency; Df=Degree of Freedom= (R – 1) (C – 1);
H_o=Null Hypothesis; H_1=Alternative Hypothesis; R=Rows; C=Columns
Decision Rule: It follows that if the computed value of x^2 is greater than the theoretical value (tabulated value), at 5% level of significance and degree of freedom, the null hypothesis **HO,** is rejected and H1 accepted.

Hypothesis 1
HO_1: That there is no effect of non-performing loans on Bank's profitability
In this section, we shall analyze the relationship between non-performing loans and profitability in First Bank Nigeria Plc using the primary data gotten. We shall use the data from the Institutions' financial report for a period of five years to compute the correlation between the two variables.

Non-performing loans and profitability in First Bank Nigeria Plc					
Year	2012 (N'Bn)	2013 (N'Bn)	2014 (N'Bn)	2015 (N'Bn)	2016 (N'Bn)
Profit before Tax (y)	19.831	22.097	38.02	46.11	33.537
Non-perf. Loans (x)	6.176	7.003	8.919	10.944	8.235

To establish the degree of relationship, we shall use the regression analysis statistical technique. The formula for the product moment is denoted by **r** and is given as follows:

$$\frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

We shall now compute the correlation between non-performing loans and profit in First Bank Plc using the data as contained in the financial statements for the years under review as collated and presented in the table below;

Relationship between Profit & NPL in First Bank					
Year	**X (N'Bn)**	**Y (N'Bn)**	**XY (N'Bn)**	**X^2 (N'Bn)**	**Y^2 (N'Bn)**
2012	19.831	6.176	122.4763	393.27	38.143
2013	22.097	7.003	154.7453	488.28	49.042
2014	38.02	8.919	339.1004	1,445.52	79.5486
2015	46.11	10.944	504.6278	2,126.13	119.7711
2016	33.537	8.235	276.1772	1,124 .73	67.8152
Total	**159.595**	**41.277**	**1,397.13**	**5,577.93**	**354.3199**
Culled from FBN Financial statements and Designed by author, Okoro, N.J. (2017)					
KEY: X = NPL (N 'Billion); Y= PBT (N' Billion)					

From the above table the following can be drawn
N = Number of years = 5; ∑XY = 1,397.1270; (∑X) = 159.5950
(∑Y) = 41.2770; X^2 = 5,577.9288; Y^2 = 354.3199

By substituting from the formula above we have

$$\frac{5(1397.1270) - (159.5950)(41.2770)}{\sqrt{[5\sum 5,577.9288-25,470.5640][5\sum 354.3199 - 1703.791]}}$$

$$\frac{6985.1270 - 6587.603}{\sqrt{[2419.0760][67.8090]}}$$

$$\frac{398.0322}{405.00}$$

$$= 0.983$$

Interpretation

The correlation co-efficient of 0.983 shows that there is 98.3% correlation between non-performing loans and profitability in First Nigeria Plc. This indicates a very strong relationship.

Using primary data to test hypothesis 1 question 1 was used

Recall, where question 1 says, Non-performing loans in Banks could lead to a reduction in profit

Response variables	Frequency	Percentage %
Strongly agree	5	2.5
Agree	10	5
Undecided	5	2.5
Disagree	80	40
Strongly Disagree	100	50
Total	**200**	**100**

The resultant computations based on the observed variables above are shown below:

Hypothesis 1 Analysis Table					
	Observed (O)	Expected €	Residual (O-E)	$(O-E)^2$	$X_2=\{(O-E)^2\}/E$
S/ agree	5	40	-35	1225	30.625
Agree	10	40	-30	900	22.5
Undecided	5	40	-35	1225	30.625
Disagree	80	40	40	1600	40
S/Disagree	100	40	60	3600	90
Total	**200**	**40**			**213.75**

DR = Degree of Freedom = (R-1)(C-1) = (5-1)(2-1)
= (4)(1) = 4

Theoretical value for the degree of freedom of 4 using 95% level of significance is 9.488.

Interpretation

Decision Rule: Since the computed value (213.75) is greater than the value derived from the statistical table the null hypothesis is rejected, and the alternative hypothesis accepted.

Interpretation: Based on the above analysis, we can conclude that there is a significant effect of non-performing loans on profitability and general performance of banks.

HO_2: That huge portfolio of non-performing loans in banks could not lead to banking distress and failure.

Question 2; Huge Non-performing loans in Banks could lead to banking distress and failures.

To test this hypothesis 2 question 2 was used		
Response variables	**Frequency**	**Percentage %**
Strongly agree	10	5
Agree	10	5
Undecided	10	5
Disagree	70	35
Strongly Disagree	100	50
Total	**200**	**100**

The resultant computations based on the observed variables above are shown below:

Hypothesis 2 Analysis Table					
	Observed (O)	**Expected E**	**Residual (O-E)**	**$(O-E)^2$**	**$X_2=\{(O-E)^2\}/E$**
SA	10	40	-30	900	22.5
A	10	40	-30	900	22.5
U	10	40	-30	900	22.5
D	70	40	30	900	22.5
SD	100	40	60	3600	90
Total	**200**				**180**

DR = Degree of Freedom = (R-1)(C-1) = (5-1) (2-1)
= (4)(1) = 4

Theoretical value for the degree of freedom of 4 using 95% level of significance is 9.488.

Interpretation

Since the theoretical value (9.488) is less than the calculated (chi-square) value (180.0), the null hypothesis is rejected; hence it is true that huge portfolio of non-performing loans in banks could lead to banking distress and failure.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

From the questionnaire items used in testing Hypothesis 1, it is worthy to note that the majority (92%) of those who strongly agreed to the proposition that non-performing loans had significant effects on bank's profitability were aged between 30 and 48 years representing those who were in their active working years. They showed a clear understanding of the link between loan provisioning and profit. Since it has been established that non-performing loans have a tremendous negative impact on bank's profitability and general performance, it would only be prudent to take urgent steps to prevent and minimize to barest minimum the incidents of non-performing loans in banks so as to enhance shareholder value.

Hence, it is clear that the effects of non-performing loans on Banks cannot be underestimated and could pose a fundamental danger to the very existence of the Banks as corporate business entities. Although there may be other causes of bank losses and failures, the bank failure phenomenon in Nigeria in the 1990s, and beyond was caused mainly by huge nonperforming loans portfolio created by bank promoters and management which had a negative effect on the profitability of the banks. To clean up the banking system and return banks to the paths of sound management and profitability, the CBN had to replace some bad management teams with Interim Management Boards (IMBs) among other regulatory actions.

Based on the outcome of the findings in this research work, the following are hereby recommended for Nigerian banks as well as the regulatory authorities:

1. Good corporate governance should be continually entrenched in Banks in order to protect stakeholders' investments.
2. Banks should set up a Monitoring Unit to watch loan performances. They should meet regularly to review the status of non-performing risk assets as well as make conscious towards their recovery
3. Banks should collect and perfect all collaterals which are used for obtaining loans. The collateral should be more than the value of loan approved, in case of default

4. The Bank should, after restructuring any loan on mutually agreed new terms and conditions between it and the customer, ensure that the parties fulfill the agreements. There should be more and effective monitoring of the customer's business, transactions, and social activities so as to detect and, if possible, prevent any avoidable abuses that can result in another default on the loan.
5. The customer should be encouraged to repay his loans instead of restructuring each time the loan is due
6. Good customer relationship should be established between the bank and the customer to ensure that the repayments are received as at when due.

REFERENCES

Ajakaiye, O. and Fakiyesi, T. (2011). Global financial crisis discussion series: Nigeria.*Overseas Development Institute*, (Paper 8): 122 – 152.

Amaonwu, O. E. (2009). Risk qualification *International conference on risk management*, Enugu Nigeria 19-23 March 2009 pp 1-16

Balogun, E. D. (2007). A review of Soludo's perspective of banking sector reforms in Nigeria. *MPRA Paper 3803, University Library of Munich, Germany* (38): 58 – 102.

CBN (2010) *Prudential Guidelines for Deposit Money Banks* July 2010

Esan, E.O. and Okafor R.O. (2000). Basic Statistical Methods, Lagos Jas Publishers.

Ikono, A. W. (2008). Appraisal of banking consolidation in Nigerian financial sector (2004 – 2007). Unpublished *MBA Thesis submitted to the Department of Business Administration*. Lagos State University, Ojo, Lagos

Irukwu, J.O (2002). Accident and Motor Insurance in West Africa, Ibadan: The Caxton Press.

Lucey, T. (2011), Quantitative Techniques, 3rd ed. New York: Guernesey Press ELBS Edition.

Mueller, P.H. (1999). Lending Officers and Lending, 4thed. New York: Harper & Row.

Nwankwo, G.O. (2009), Bank Management: Principles and Practice, Lagos: Malt house Press Ltd

Onyeriuba, L.O. (2000). Economic Policy and Economic Development in English Speaking Africa, Lagos: Malt house Press Ltd.

Ojikutu, R. K., (2012) Statistics: Problems and Solution, Ikeja: Malt house Press Ltd.

Osuagwu, L. (2000) Business Research Methods, Principles and Practice, Lagos: Gray Research Ltd.

Sanusi,S.L. (2012). Banking reforms and its impact on the Nigerian economy, *Paper presented at Warwick's Economic Summit, UK,* 17TH February, 2012.

Soludo, C.C. (2009) Global financial and economic crisis: how vulnerable is Nigeria? Presentation by Professor Charles Chukwuma Soludo, Governor of the Central Bank of Nigeria, (in office between May 29, 2004 – May 29, 2009) to the House of Representatives Committee on Banking and Currency on January 21, 2009.

APPENDIX 1
Afe Babalola University, Ado Ekiti, Ekiti State
Department of Banking and Finance, College of Social and Management Science

QUESTIONNAIRE ON THE EFFECT OF NON-PERFORMING LOANS ON THE GROWTH OF BANKS IN NIGERIA

Dear Respondent,
This questionnaire was designed to elicit your response to questions on the effect of non-performing loans on Banks Growth. Kindly tick the appropriate box for each question
NAME OF ORGANIZATION: ………………………………………………………………

BRANCH: Marina ☐ Ladipo ☐ Alaba-Suru ☐ Burma-Road ☐ Ikeja ☐
QUALIFICATION: SSCE ☐ BSc. ☐ MSc. ☐ PhD ☐
SEX: Male ☐ Female ☐
LENGTH OF SERVICE: 0-5yrs ☐ 6-10yrs ☐ >10 yrs ☐
AGE: <30yrs ☐ 30-40yrs ☐ 41-50yrs ☐ 51-60yrs ☐ >60yrs ☐

KEY:

5	4	3	2	1
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Always	Often	Sometimes	Seldom	Never

S/N	QUESTIONS\SCORE	5	4	3	2	1
1	Non-performing loans in Banks could lead to reduction in profit					
2	Non-performing loans in Banks could lead to banking distress and failure					
3	High rates of non-performing loans in Banks could lead to collapse of the banking system in Nigeria					
4	Non-performing loans in Banks could threaten the Banks' corporate existence					
5	CBN's reforms under Sanusi's governorship saved the Nigerian banking sector from collapse					
6	Sanusi's reforms have assisted in restoring public confidence in Nigerian Banks					
7	A strong banking system is prerequisite for a strong financial industry					
8	Recent CBN's reforms under Sanusi as Governor have assisted in reducing incidents of non-performing loans in Banks					
9	Banks with long history of huge non-performing loans may not survive for long before they fold up					
10	Non-performing loans in Banks could be a sign of poor risk management in the banks					

11	Incidents of non-performing loans in Banks could increase where loan monitoring activities are weak					
12	How often do you think borrowers should repay back the loans they took from banks?					
13	Banks should consider the integrity of the borrower before loans are granted					
14	Banks should ensure to collect adequate and sufficient collateral against loans advanced in case of default					
15	Failure to repay bank loans may arise from outright unwillingness to repay the loan or it could arise from circumstances beyond the borrower's control					

APPENDIX 11

Q1: Non-performing loans in Banks could lead to reduction in profit			Q2: Huge Non-performing loans in Banks could lead to banking distress and failures			Q3: High rates of NPL in Banks could lead to collapse of the banking system in Nigeria		
Response variables	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**
Strongly agree	100	50	Strongly agree	10	5	Strongly agree	90	45
Agree	80	40	Agree	10	5	Agree	80	40
Undecided	5	2.5	Undecided	10	5	Undecided	5	2.5
Disagree	10	5	Disagree	70	35	Disagree	15	7.5
Strongly Disagree	5	2.5	Strongly Disagree	100	50	Strongly Disagree	10	5
Total	**200**	**100**	**Total**	**200**	**100**	**Total**	**200**	**100**

Q4: NPL in Banks could threaten the Banks' corporate existence			Q5: CBN's reforms saved the Nigerian banking sector from collapse			Q6: Sanusi's reforms have assisted in restoring public confidence in Nigerian Banks		
Response variables	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**
Strongly agree	110	55	Strongly agree	90	45	Strongly agree	112	56
Agree	70	35	Agree	80	40	Agree	76	38
Undecided	10	5	Undecided	15	7.5	Undecided	4	2
Disagree	5	2.5	Disagree	5	2.5	Disagree	5	2.5
Strongly Disagree	5	2.5	Strongly Disagree	10	5	Strongly Disagree	3	1.5
Total	**200**	**100**	**Total**	**200**	**100**	**Total**	**200**	**100**

Q7: A strong banking system is prerequisite for a strong financial industry			Q8: Recent CBN's reforms have assisted in reducing incidents of NPL in Banks			Q9: Banks with long history of huge NPL may not survive for long before they fold up		
Response variables	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**
Strongly agree	60	30	Strongly agree	120	60	Strongly agree	90	45
Agree	70	35	Agree	60	30	Agree	88	44
Undecided	5	2.5	Undecided	5	2.5	Undecided	15	7.5
Disagree	35	17.5	Disagree	10	5	Disagree	5	2.5
Strongly Disagree	30	15	Strongly Disagree	5	2.5	Strongly Disagree	2	1
Total	**200**	**100**	**Total**	**200**	**100**	**Total**	**200**	**100**

Q10: NPL in Banks could be a sign of poor risk management in the banks			Q11: Incidents of NPL in Banks could increase where loan monitoring activities are weak			Q12: How often do you think borrowers should repay the loans they took from banks		
Response variables	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**
Strongly agree	111	55.5	Strongly agree	98	49+	Always	114	57
Agree	59	29.5	Agree	62	31	Often	66	33
Undecided	5	2.5	Undecided	8	4	Sometimes	6	3
Disagree	10	5	Disagree	7	3.5	Seldom	9	4.5
Strongly Disagree	5	2.5	Strongly Disagree	5	2.5	Never	5	2.5
Total	**200**	**100**	**Total**	**200**	**100**	**Total**	**200**	**100**

Q13: Banks should consider the integrity of the borrower before loans are granted			Q14: Banks should collect sufficient collateral against loans advanced in case of default			Q15: Failure to repay bank loans may arise from outright unwillingness to repay the loan or circumstances beyond the borrower's control		
Response variables	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**	**Response variables**	**Frequency**	**Percentage %**
Strongly Agree	102	51	Strongly Agree	115	57.5	Strongly Agree	110	55
Agree	68	34	Agree	64	32	Agree	70	35
Undecided	5	2.5	Undecided	6	3	Undecided	7	3.5
Disagree	10	5	Disagree	10	5	Disagree	8	4
Strongly Disagree	5	2.5	Strongly Disagree	5	2.5	Strongly Disagree	5	2.5
Total	**200**	**100**	**Total**	**200**	**100**	**Total**	**200**	**100**